

Congressional funding holds key to reverse mortgage program

BY TAMARIND PHINISEE

Reverse mortgages, also known by their formal name, Home Equity Conversion Mortgages, or HECMs, are popular with older Americans because of the financial security they offer. However, mortgage industry leaders say the HECMs could be more difficult to obtain moving forward if the insurance fund that covers them does not receive the necessary appropriations from Congress.

Both the House and Senate appropriations committees have each approved \$150 million in appropriations for fiscal year 2011 (beginning Oct. 1) for the FHA's Mutual Mortgage Insurance Fund, which insures reverse mortgages. However, only

the House has so far voted to approve the legislation.

Legislative sources say that since this money is part of Congress' larger overall budget for fiscal year 2011, final legislative approval for the appropriations could come as late as September.

The fund is used to repay mortgage loans if the borrowers can't repay the loans.

Without the fund, lenders could be less willing to make the loans, industry experts say.

Members of the National Reverse Mort-



Bell

gage Lenders Association (NRMLA) say they will seek changes to the way the current program operates if money for the fund is not approved.

These changes could include making the amount that can be borrowed flexible so that homeowners can take out a lower percentage of the value of their home versus the 55 percent to 60 percent that's traditionally taken.

The goal of this flexibility, says president of the National Reverse Mortgage Lenders Association Peter Bell, is to reduce the stress on the insurance fund or make the reverse mortgage program self-sustaining and to negate the need for homeowners to pay the current required mortgage insurance premium of 2 percent.

"We're looking for two things: one is to preserve the \$150 million that has been granted by the subcommittees and two, to get technical language that gives HUD (the U.S. Department of Housing and Urban Development) the flexibility to create this new variation of the program to complement the existing (reverse mortgages)," Bell says.

Using reverse mortgages

Reverse mortgages are loans backed by the federal government and are only given to seniors age 62 and older who have usually paid off at least 50 percent of their current mortgage. These loans can provide seniors with monthly annuity payments, a line of credit or they can take as a lump sum.

A reverse mortgage approved by the lender under the federal guidelines is pegged to the borrower's age, the interest rate on the new mortgage and the appraised

money as they didn't know how popular the program would be," Hipp says.

Pros and cons

Everett Ives, owner of locally based mortgage industry business consulting company Everett Ives and Associates, says reverse mortgages can be an effective way to keep seniors from losing their homes to foreclosure.

"This solves several problems. First, their current mortgage is paid off. Second they don't have to make future payment, and third, they get an income from their home," Ives says. "Fourth, income and credit don't matter on reverse mortgages."



Ives

Reverse Mortgages in Texas

Year	Loans	Ttl. Principal Limit
2005	2,841	\$216,447,370
2006	4,669	\$352,248,393
2007	5,738	\$461,717,114
2008	7,087	\$619,345,746
2009	7,495	\$928,000,054
2010*	2,425	\$269,778,399

Source: Texas Mortgage Bankers Association, based on information from California-based Reverse Market Insight.

* Year to date through May

But some industry experts say reverse mortgages are not heavily utilized because the concept of using the home as an income source can be somewhat confusing.

Scott Norman, president of the Texas Mortgage Bankers Association, says his organization hopes to present legislation before the Texas Legislature next year that will make use of the program more "consumer friendly without taking away



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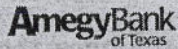
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ally paid off at least 50 percent of their current mortgage. These loans can provide seniors with monthly annuity payments, a line of credit or they can take it as a lump sum.

A reverse mortgage approved by the lender under the federal guidelines is pegged to the borrower's age, the interest rate on the new mortgage and the appraised value of the home.

Generally, seniors are not required to repay the loan until they either sell or move out of the home. If they pass away, the loan is repaid out of the homeowner's estate.



Hipp

Sometimes, however, the amount owed isn't or can't be repaid.

Melinda Hipp, senior loan officer for locally based Legacy Mutual Mortgage, a HUD-approved reverse mortgage lender, says the amount owed is then repaid to the lender out of the FHA mortgage insurance fund.

Hipp says homeowners generally pay an up-front fee for an FHA loan under the Housing and Urban Development department. An extra fee or mortgage insurance premium is rolled into either the regular or reverse mortgage loan.

Hipp says that the economic downturn and the dramatic drop in home values may have contributed to a huge dip in the money in the fund.

"I would imagine that, not in Texas, but with many of the property values declining in other states, there probably have been some hefty payouts from the insurance fund for properties in places like California, Nevada and Florida ...," Hipp says.

However, Hipp says that lenders are optimistic that the appropriations will go through.

"We've been through similar appropriations bills before when the program was just getting off its feet. We used to have to go to Congress in midyear to ask for more

But some industry experts say reverse mortgages are not heavily utilized because the concept of using the home as an income source can be somewhat confusing.

Scott Norman, president of the Texas Mortgage Bankers Association, says his organization hopes to present legislation before the Texas Legislature next year that will make use of the program more "consumer friendly without taking away consumer" benefits.

This legislation, Norman says, would propose allowing seniors to purchase a smaller, more affordable home using the reverse mortgages — something allowed in all states except Texas. It would also allow seniors who have their homes in a trust to close into a reverse mortgage.

"I ELIMINATED A LARGE MORTGAGE PAYMENT ON A MONTHLY BASIS. IT WAS REALLY WORTH DOING."

Ann Gaddis
Reverse-mortgage borrower

"Currently, they have to remove the home from the trust and then close into a reverse mortgage. This is an additional cost to seniors," Norman says.

Norman says that over 35,000 reverse mortgage transactions have been conducted in the state since January 2001.

Local resident and reverse-mortgage borrower Ann Gaddis believes more homeowners in the local community should take advantage of the program.

Gaddis closed on a reverse mortgage last month to free up money that can be used elsewhere.

"It's something that many older people need to do. I eliminated a large mortgage payment on a monthly basis," Gaddis says. "It was really worth doing."